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ABSTRACT

A study of the processes for establishing the principles and policies of measurement and disclosure in preparing financial reports examines differences in these processes in the United States, Canada, and England. Information was drawn from international accounting literature on standard setting. The differences and similarities in the standard-setting processes are discussed in the cultural contexts of the countries, and it is proposed that the approaches used to establish standards are a function of cultural values and factors inherent in each country. The analysis focuses on the extent to which the standard-setting process is conducted in the public as contrasted with the private sector. Twelve endnotes and 68 references are appended. (MSE)

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THE CULTURAL INFLUENCE IN ACCOUNTING STANDARD SETTING: A COMPARATIVE ANALYSIS OF THE UNITED STATES, CANADA, AND ENGLAND

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THE CULTURAL INFLUENCE IN ACCOUNTING STANDARD SETTING: A COMPARATIVE ANALYSIS OF THE UNITED STATES, CANADA, AND ENGLAND

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> ... Standard-setting in accounting is not based on any scientific theory, but rather is the result of the interaction of theory and practice with various environmental influences. There are few, if any, objective criteria to guide the setting of standards. -- J.R.E. Parker (1974)

I. INTRODUCTION

This paper analyzes the different accounting standard-setting processes in three countries: the United States, Canada and England. Accounting Standards are principles, policies, or rules of measurement and disclosure that are followed in the preparation of financial reports. This study is based largely on an examination of relevant international accounting literature on the subject of standard setting. The differences and similarities of the standard-setting processes are highlighted with a view to examining the cultural aspects of each country and how they implicitly impact the standard-setting frameworks. Thus, the hypothesis of this paper is that the approaches used to establish accounting standards are a function of cultural values and factors inherent in each country. Accordingly, standard-setting approaches vary considerably from country to country.

The extent to which the standard-setting process in each country is conducted in the public versus private sector is studied. The rationale is provided for the particular framework used to formulate accounting standards in each country. Which party--be it public or private--dominates the standard-setting process apparently depends on the overall environment in which financial accounting and reporting prevails, including the nature and stature of the accounting profession in each country. A standard-setting framework should meet the needs of a particular country. There are significant differences from country to country in socioeconomic, legal, and political environments as well as traditions.

Since this paper deals with "culture," a composite definition of this term is called for:

> Culture may be defined as a multifaceted concept that essentially pertains to knowledge about human behavior or patterns that is passed on from one generation to another. However, such patterns may well change over the years to meet new environmental conditions.

Devine, a respected accounting philosopher, has argued (1960):

> ... If accounting is to be a profession the accountant must look to the accepted social standard of the place and time and use existing social attitudes as they are expressed in the form of laws, customs, administrative decisions, religious edicts, and the like, as the basis for subjective decision. Members of the accounting profession should sense and appraise the relative desirability or undesirability of certain demands by applying the customs and laws that guide the social group. Then with knowledge of the probable effects of certain lines of accounting action the profession can translate the general attitudes of society into accounting rules that will help accomplish socially desirable behavior and discourage undesirable behavior. The accepted body of accounting doctrine may, therefore, change radically from time to time, and leaders of the profession must be equipped with an understanding of social institutions sufficient to interpret intelligently the meaning of social trends and changes.

Devine makes a persuasive case for examining social attitudes and customs as a foundation for developing accounting standards. However, Bedford and Dopuch take a countervailing view (1961):

> ...[A]nalyzing the goals of society as they are expressed and conveyed in customs and traditions and even laws is no guaranty that these expressions and conveyances represent all factions of the populace. Often they represent the the successful efforts of minorities who can make their viewpoints seem as reflections of society (e.g., what social values on a national scale guide import quotas ...). On the other hand, what degree of significance should be assigned to those values expressed by the majority? Do not minority interests have a social right to demand that accounting disclose information useful to them?...

In sum, this paper attempts to examine the cultural and environmental influences inherent in accounting standard-setting processes. The informational content of this paper should be especially useful in teaching international accounting, a subject that cannot be neglected in accounting programs, since schools of business administration that are accredited by the American Assembly of Collegiate Schools of Business are indeed required to cover international business throughout their curricula, including the accounting discipline. Indeed, the American Accounting Association Committee on Future Education has asserted (1986, p.181):

> ...[T]he professional accountant [will not] function well in the international world of business without knowledge of different cultures....

Part II of this paper provides an analysis of the standard-setting processes in the United States, Canada, and England, along with an attempt to explain the differences in these processes based on cultural factors. Part III summarizes the findings set forth in Part II and speculates about the cultural influence on accounting standard-setting in general.

II. ANALYSIS

THE UNITED STATES

The Financial Accounting Standards Board (FASB) has been the principal standard-setting body in the United States since 1973. It is a private organization, independent of all other organizations, which is responsible for establishing principles or standards of financial accounting and reporting. The standards are recognized as authoritative by the Securities and Exchange Commission (SEC), through Accounting Series Release 150 in 1973. Representing the government agency with which publicly-owned corporations are required to submit annual and periodic reports, the SEC has had the legal authority since 1934 to formulate accounting standards. The SEC has by and large delegated the role of establishing accounting standards to the FASB and its predecessors. Publicly-owned corporations are required to adhere to FASB standards; otherwise the SEC, which supports the standards, can bar such companies from trading their securities.

The key role of the SEC is to foster full disclosure of material facts pertaining to securities offered in public sales. The SEC also establishes disclosure standards for proxy solicitation, which serve as a mechanism for regulating corporate disclosure. Through its integrated disclosure system, the SEC has promoted improved financial reporting by simplifying disclosure requirements and encouraging a fusion of SEC eports and annual financial reports. The SEC reviews and evaluates the work of the FASB, so that the FASB cannot perform its functions without the SEC's authorization. If the SEC is dissatisfied with the FASB's performance on any issue, the SEC asserts itself to the point of stepping into the standard-setting process; and it has done that in accounting for the investment tax credit, leases, oil and gas, and changing prices.

Before the FASB was established, accounting was conducted by the Accounting Principles Board (APB), which was part of the

American Institute of Certified Public Accountants (AICPA), the major organization of CPAs in the United States. The APB was a part-time, unsalaried council of eighteen to twenty-one CPAs, which prevailed from 1959 to 1973.

Prior to the establishment of the APB, another body within the AICPA was responsible for formulating accounting principles--the Committee on Accounting Procedure (CAP). Created in 1937 to narrow the alternative standards or policies management could select in financial reporting, CAP had essentially the same charge that was subsequently given to the APB and FASB. Until its function was assumed by the APB in 1959, CAP, which consisted entirely of CPAs mostly in public practice, generated fifty-one accounting research bulletins. CAP pronouncements were supposedly adhered to based on general acceptance. CAP was replaced by the APB, the latter having been supported by a research staff. Under the auspices of the APB, research studies were conducted on various issues prior to issuance of opinions or standards. Furthermore, in 1964, the AICPA required its members to adhere to APB opinions in external financial reports and to report deviations from such opinions and the rationale for such deviations.

In conformity with the recommendations of the AICPA Study Group on Establishment of Accounting Principles (also known as the Wheat Committee, 1972), the FASB was established as a private organization. The APB was an arm of the AICPA; that is not the case with the FASB. The FASB has a much smaller membership and more autonomy than the APB ever did. Funding for the FASB comes from contributions and publication sales.

The FASB has seven full-time members, none of whom is currently required to be a CPA. While their backgrounds vary, all are knowledgeable in accounting and business matters. Upon joining the FASB, each member must end employment in other organizations, so as to be considered completely independent in appearance as well as in fact. The FASB members are selected by the Financial Accounting Foundation, which consists of members from various sponsoring organizations concerned with corporate financial reporting and government accounting. The foundation elects a board of fifteen trustees, twelve for the FASB and three for the new Governmental Accounting Standards Board (GASB).

To be able to appreciate the nature and mechanism of the American standard-setting body, i.e., the FASB, students should be acquainted with standard-setting frameworks in other countries and how cultural differences between such countries appear to impact the nature of such frameworks.

The FASB operates entirely in the "sunshine." All its meetings are open to the public, which has a great deal of opportunity to make its views known throughout the standard-setting process. Such openness is designed to ensure that the

public interest is considered in standard-setting and to enable the Board to understand many different perspectives on the underlying issues and possible alternative solutions.

CANADA

Both Canada and the U.S. rely on central standard-setting entities, but there is no federal Securities and Exchange Commission in Canada as in the U.S. Companies that are incorporated under the Canada Business Corporations Act (CBCA, 1975) or under provincial corporation acts are required to follow the Canadian Institute of Chartered Accountants (CICA) Handbook (i.e., a collection of explicit standards and guidelines in financial reporting which was started in 1968). Furthermore, Administrators of Provincial Securities Commissions in Canada have issued national policy statements requiring adherence to the Handbook by companies whose securities are publicly traded. Nonetheless, there is no federal government agency to enforce CICA standards. The provincial commissions enforce CICA standards especially in Ontario and Quebec.

In contrast to the conditions that prevail in the U.S., with the adversarial relationship between the FASB and SEC:

> There appears to be no serious adversary situation between the private and public sectors in Canada with regard to accounting or auditing standards. The government, through its legislative powers, retains ultimate control over the standard-setting process in the sense that it may mandate change if and when circumstances require it, but appears content to allow the private sector (subject to an occasional unofficial prod), to interpret users needs in financial reporting and respond to them by establishing measurement and disclosure standards within the context of the broad disclosure requirements of various Acts and regulations ....(CICA Report of the Special Committee on Standard Setting, Toronto, 1979, G.102.)

However, subsequent to issuance of this committee report, in 1981 and 1982, there was considerable friction between the CICA and the Canadian federal government over the accounting method to be used for Petroleum Incentives Program grants. The federal government in the final analysis decided to allow the CICA to have its way.1

While the AICPA is no longer the standard-setting body in the United States, the CICA remains as such in Canada. Whereas the FASB is an independent standard-setting body, the Accounting Standards Committee (AcSC) is an arm of the CICA. Table 1

furnishes a breakdown of the principal differences among the American, Canadian and British frameworks.

Canada's passion for secrecy is reflected in its standard-setting process. The AcSC holds no open meetings or public hearings whatsoever, and there is no public call for the AcSC to do so. The AcSC does not presently indicate in each accounting standard the number of committee members who voted in favor of, and the number who voted against, the standard as well as the rationale for the negative votes. The reason for such confidentiality, which is consistent with the Canadian penchant for secrecy, is to foster the AcSC's independence from external pressures. Also, the AcSC makes limited use of external task forces and circulates exposure drafts to the public only upon specific request, placing considerable reliance on the confidential associates of each committee member in the standard-setting process. By contrast, the FASB holds all its meetings open to the public and specifies in the standards the number of board members who voted in favor of each standard and those who voted against along with the reasons for their dissents; the AcSC does no such thing. An external task force is appointed by the FASB for each project; that has not generally been the case with the AcSC. The FASB circulates publicly all its discussion memorandums and exposure drafts on each issue under consideration. By contrast, AcSC circulates only exposure drafts to the public. Thus, the Canadian public is not apprised of the AcSC's position on any issue until late in the standard-setting process.

While Americans were dissatisfied with their Accounting Principles Board (APB), the standard-setting authority in the U.S. from 1959 to 1973, Canada's AcSC bears a striking resemblance to the APB. An arm of the CICA, the AcSC has 22 part-time, unpaid members who serve 3-year terms. While the APB, which was an arm of the American Institute of Certified Public Accountants (AICPA), proved to be unacceptable as the standard-setting authority in the U.S., the AcSC is considered the legitimate standard setter in Canada. The APB was replaced by the FASB, which has been independent of all other organizations including the AICPA, and has 7 full-time, well-paid members, who serve 5 year terms.

Not adversarial by nature, Canadians have yet to complain openly that the AcSC lacks independence, in view of the fact that its members hold full-time positions in major accounting firms and other organizations. The AcSC does have a heavy, full-time workload. So too did the APB. It was the lack of independence coupled with a heavy workload, among other factors, that served to "undo" the APB. One must wonder how the AcSC can prevail under similar conditions that undermined the APB. What is suitable for Canada, however, in the realm of standard setting may well be unsuitable for the U.S. and vice versa, since the two countries have different cultures and traditions. Additionally, an FASB-type body may well be far too costly for

Canada, which has a much smaller population than the U.S. (25 versus 240 million, respectively).

Zeff (1985) has observed that Canada and the U.S. have different fundamental cultural values:

U.S. : freedom diminished by periodic need to cope with instances of unscrupulous dealing.

Canada : freedom moderated by social justice.

In specific terms:

1. Canadians are much less likely to lodge lawsuits to solve their problems than Americans. Canadians are less aggressive and less adversarial than their American counterparts. Canada is less of a leader, and more of a follower, than the U.S. Americans have a boundless optimism that they can resolve their problems, whatever they may be, in accounting and beyond. That optimism is not apparent among Canadians.

2. Canada's parliamentary process is based on the British approach.

3. Canada is much more of a welfare state than the U.S.

4. There is a much greater emphasis on government corporations in Canada than in the U.S.

5. Standards issued by the CICA are supported by the federal Canada Business Corporations Act and also by various Canadian provincial security commissions.

6. Many chief financial executives in Canadian organizations are chartered accountants.2

Canadian accounting relies heavily on the professional judgment of standard setters, management accountants, and chartered accountants, much more so than is the case in the U.S. Canadian standards are looser than their American counterparts, again in conformity with the accent on professional judgment. Canada tends to adopt standards on particular subjects only after the U.S. and Britain have implemented their own standards on these subjects, and Canada adapts such standards eclectically. In accordance with its image as a welfare state, Canada has a comprehensive accounting standard on governmental assistance as does Britain, in contrast to the U.S. There are also fewer Canadian as well as British standards in sharp contrast to the number of American standards, again due in part to the emphasis on professional judgment in these countries, but also due to the fact that only a small percentage of the Canadian and British public invests in the stock market.

The various differences between the Canadian and American standard-setting frameworks and modus operandi can also be explained in terms of professional judgment, illustrated by the failure to adopt and use an explicit conceptual framework or constitution of objectives, qualitative attributes, and elements of financial reporting in the Canadian standard-setting process, and the laid-back, non-aggressive attitude of Canadians, illustrated by their willingness to accept the pronouncements of the AcSC even though the members of this committee do not appear to be independent.

In light of increased trade with the U.S. and the fact that Americans began to lead the way in accounting education, the American influence in Canada began to supersede that of the British in the 1920s and 1930s. Additionally, with the immigration influx of the post World War II period, Canada has become a polyglot, multicultural nation considerably less British-oriented. Furthermore, the extent of American investments in Canada has increased markedly in the postwar period. Indeed, Canadian accounting appears in large part to be a microcosm of its American counterpart. The American influence is so significant that, for example, Canada has not adopted social accounting reports, which have been adopted in several European countries such as France, West Germany, and Britain, despite the strong, militant unions that prevail in Canada as well as Europe, in contrast to the United States.3

Another characteristic of Canadians is that they are in general highly risk-adverse,4 and shy away from stock market investments and speculative transactions. Canadians distrust big business, and prefer to keep their money in savings accounts. In view of the fact that the Canadian public is not heavily involved in the equity capital markets, it might be asserted that Canada does not need the same kind of accounting standards as does the U.S. Additionally, Canadian business is by and large conducted by private rather than public companies. The Handbook represents the explicit Canadian generally accepted accounting principles (GAAP), which constitute only a very small percentage of Canadian GAAP; much of Canadian GAAP is not codified as such and thus is not part of the Handbook.

Canadians are much more inclined than Americans to accept authority--e.g., that of the CICA to set accounting standards. Moreover, Canadians are less apt than Americans to argue about accounting standards and to take their cases to the federal and provincial governments for resolution.

American standard setting is more overtly concerned with the economic and political consequences of standards than is the case in Canada. Nevertheless, economic and political consequences occurred subsequent to issuance by the CICA of accounting pronouncements for leases (1978), foreign currency translation (1979), and guidelines for the petroleum incentives

program (PIP) grants (1982). There may be several reasons for the lack of emphasis by the AcSC on economic and political consequences:

(1) The AcSC may wish to maintain a sense of autonomy and insulate itself from political pressures and lobbyists.

(2) Canadians as opposed to Americans are less inclined to act adversarially.

(3) Canadian standards are generally formulated after the corresponding American standards have been instituted, and the AcSC may conceivably be reluctant to change a standard that has already been established in the U.S.

(4) Major Canadian companies with significant American interests fall under the jurisdiction of the SEC and thus adhere to American GAAP to a large extent, taking their complaints about particular standards to the FASB and the SEC rather than the AcSC and provincial security commissions.

(5) The AcSC members may conceivably be unaware of the possible economic impact of accounting standards.

It might be said, however, that the lack of a conceptual framework in Canada enhances the political nature of standard setting and the need for compromises, though a conceptual framework is most assuredly not a panacea for resolving controversies concerning alternative accounting policies.

ENGLAND

Zeff (1985) has observed that the fundamental British cultural value is:

> freedom tempered by desire to preserve traditional modes of behavior (with a genius for instituting fundamental reforms swiftly, once the pressures for change reach the flash point); moderated by social justice.

This cultural value is implicitly reflected in the British standard-setting process. Indeed, the process described below was adopted in in 1970 to meet public and media pressure for reform in standard setting. As Lee (1975, p. 29) says:

> ...The late 1960s witnessed a sharp and dramatic increase in the level of criticism of the accountancy

profession, particularly with regard to the flexibility of accounting practice. This resulted, in 1970, in the publication of the "Statement of Intent on Accounting Standards" in the 1970s of The Institute of Chartered Accountants in England and Wales, with its stated objectives of "narrowing the areas of difference and variety in accounting practice," its recommendation of "disclosure of accounting bases" and "disclosure of departures from established definitive accounting standards"; "wider exposure for major new proposals on accounting standards"; and a "continuing programme for encouraging improved accounting standards in legal and regulatory measures." The initiative was followed up by the formation, in conjunction with other major accountancy bodies, of the Accounting Standards Steering Committee, the commencement of a stated programme of research on individual accounting and reporting problems, the subsequent formulation and publication of EXPOSURE DRAFTS of proposed accounting standards, and the eventual publication by the respective Councils of STATEMENTS of STANDARD ACCOUNTING PRACTICE, which are mandatory on all members of the relevant professional bodies.

Standard setting in England is essentially the function of the Accounting Standards Committee (ASC), a private body separate and apart from the government. The ASC, much like the old American APB in structure, serves to carry out the British Companies Acts, though the ASC has no enforcement authority. The ASC, established as a result of accounting scandals and a public outcry against too many alternative accounting methods, consists of 20 part-time, unpaid members, who may not be independent in the full sense of the word, and who are not required to be accountants. Five of them are "users" of financial reports. The ASC requires each of six consultative bodies--the Consultative Committee of Accountancy Bodies (CCAB)--to nominate members to fill vacancies, and the ASC operates thru these consultative bodies. The standards set forth by the ASC are not mandatory by law, in contrast to Canadian and American standards, though the ASC does have the authority to discipline for lack of adherence to its standards, an authority which it has yet to exert. Nonetheless, auditors do point out lack of compliance in qualified audit opinions, and so too does the Stock Exchange.

The British Companies Acts constitute the basic legal framework and a source of "standards" in the broad sense of the term in accordance with the Canada Business Corporations Act. The Companies Acts incorporate directives of the European Economic Community (EEC) in regard to the quality and scope of financial reports, even though the emphasis in Britain has traditionally been on the unwritten common law. In addition to the Companies Acts, court decisions pertaining to their compliance or lack thereof also constitute accounting law for

all intents and purposes. The standard-setting process in England can be characterized by the following stages.5

With respect to identification of topics, they come from the ASC's list of projects or agenda. Topics may stem from a special request from an interested party. Additionally, standards may be the result of a change in the law, or may result from an international development. The ASC monitors developments by the EEC, the U.S. and the International Federation of Accountants (IFAC). The Planning Sub-Committee of the ASC takes account of suggestions made by other members of the ASC. The Planning Sub-Committee advises on the need for research, recommends the composition of working parties, and oversees their operations. Also the Planning Sub-Committee considers and reviews documents before they are put to the ASC for discussion and final decision.6

Research Studies are carried out, perhaps by one of the Consultative Committees of Accountancy Bodies (CCAB).7 Results of the studies serve to clarify the issues and provide a basis for further decisions.8 Research studies are considered by the ASC. A decision is made on whether to pursue each study. If ASC decides to pursue a study, a working party is formed, and the ASC tells the working party what types of documents are required. Working parties consist primarily of non-ASC members, though such parties may be chaired by an ASC member. There are three possible documents: (1) a discussion paper, which is optional, exploratory, and does not set out the proposed text of a final standard; (2) a statement of intent, which is optional, representing a public statement issued by the ASC and indicating how the ASC will deal with the matter; (3) an exposure draft, which is required, and contains a preface to the main text and sets out the background and arguments.9

The ASC must be kept abreast of the working party's progress. The working party provides feedback to the ASC at an early stage in the form of: (1) the planned technical content of the document, and (2) a Consultation Plan, which identifies the groups that will be accepted and consulted with as well as the Department of Trade; and considers any legal problems. In addition, the Consultation Plan sets out plans for involvement of the CCAB, provides provisions for public hearings and consultation with financial-statement users. Furthermore, it contains a press plan and a timetable.

After the ASC has agreed in principle with the working party, the working party carries out its plan. Findings of the working party are submitted to the ASC. The ASC makes necessary changes in the draft. Once the ASC is satisfied with the draft, it is approved for publication. This period usually lasts six months. Communicators or respondents formulate comments and submit them in writing to the ASC. The working party is "on call" during this period to defend its findings.

Following the exposure period, the working group meets to consider the letters and comments received from respondents. The working party prepares and presents to the ASC a summary of the reactions and recommendations. The ASC deliberates and makes a decision. Redrafting is carried out by the working party, and there is further consultation if required. When redrafting and consultations are completed, a final draft is presented to the ASC. Some rework may be required, which is then carried out until the ASC is satisfied. The draft standard is subsequently sent to the CCAB for approval. Finally, the standard is approved by the CCAB. Enforcement of the standard is carried out by the CCAB. The CCAB also publishes the standard.

Table 1 furnishes a breakdown of the principal differences among the American, Canadian, and British standard-setting frameworks.

It should be emphasized that the British ASC prepares Statements of Standard Accounting Practice (SSAPs), which constitute accounting standards, as well as Statements of Recommended Accounting Practice (SORPs) for each issue which does not meet all the criteria for an accounting standard. SORPs are "stand-alone" documents (i.e., not related to other standards) and are non-mandatory. Additionally, the ASC issues Statements of Intent (SOI), a new form of advisory document to indicate how the committee expects to deal with specific accounting issues. Interpretations of standards are not provided by the ASC. Adherence to SORPs is encouraged, but not mandatory.

It should also be emphasized that the ASC prepares, but does not issue or enforce, accounting standards; that is the role of the six members of the CCAB. Such standards are fewer in number and looser than their American counterparts. Also, in conformity with the Fourth Directive of the EEC, emphasis is placed in standard setting on conveying "a true and fair view," on economic substance rather than legal form. Nonetheless, the standard setting process in Britain as in the U.S. is influenced by economic consequences. Furthermore, there is a great deal of openness in the British framework with respect to standard setting as in its American, but not its Canadian, counterpart, in terms of issuing exposure drafts, holding public hearings, and issuing standards fully providing the rationale for them.

The British system emphasizes pragmatism and empiricism. Zeff (1985) asserts that British culture is characterized by "secrecy of process typified by a consensual approach applied in quiet, dignified setting." However, the British standard-setting process is not characterized by secrecy. It is very much a consensual approach, in fact.

III. CONCLUDING COMMENTS

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While all three countries considered in this paper--the U.S., Canada, and England--follow the common law,10 the U.S. in contrast to the other two countries, has all too many detailed, rulebook standards, attempting to foresee, and provide a solution to, every accounting problem under the sun. The American standards are so detailed and legally-oriented that they resemble a tax code. Canada and Britain, on the other hand, have far fewer standards than the U.S. As Stamp observes:11

> The approach now being developed by the FASB has many of the earmarks of that used by lawyers in civil law jurisdictions [e.g., a complete written code]. Yet it might be argued that the FASB, which of course operates in a common law country, is in fact doing no more than developing definitions and rules such as are commonly thought to exist in the law of property, contract and tort in common law jurisdictions.
>
> In fact, however, there is no such codification of the common law relating to property, contract, tort, etc. throughout most of the common law countries of the world. There have been moves towards codification of parts of the common law in all of the common law jurisdictions, but except with respect to the criminal law such moves have not progressed very far because of fears of the ossification that could result.

Where standards become statute books, strict and narrow in nature, professional judgment becomes eroded. The standards in Canada and Britain are more guidelines-than rulebook-oriented in contrast to U.S. standards. Furthermore, there is a great deal of emphasis on professional judgment in the standard-setting process in Britain and Canada versus the U.S. It might be asserted that Canadian accounting is an amalgam primarily of American and British influences. To the extent that Canadian accounting does not reflect American practice, the well-entrenched British influence appears to be responsible.

There is a number of differences in the American, Canadian, and British standard-setting procedures and the standards themselves, differences that are generally not surprising in light of the cultural differences among the three countries. Nonetheless, Stevenson (1968, p.7) observes that standard setting in most countries tends to be characterized by the following characteristics:

- limited financial resources;
- part-time membership of committees or boards;
- limited experienced professional staff;
- changes in committee membership and staff;

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- changes in committee membership and staff;
- inadequate communication with the community; and,
- a pre-occupation with brush-fires.

Additionally, in these three countries, and this is probably true worldwide, the standards appear to lag significantly behind environmental and cultural changes. As Bromwich and Hopwood argue (1983):

> There is reason to believe that accounting standards and regulations often reflect the concerns of society with a lag. In other words, today's accounting reflects yesterday's concerns. Moreover, those concerns which ultimately impact on accounting are rarely stated in an explicit way, with the result that often the accounting policy-making process can only respond to them in a rather nebulous manner.

A lag also appears to exist in the setting of standards subsequent to socio-economic and political changes, including governmental intervention. Additionally, cultural factors may serve as constraints inhibiting changes in accounting standards, limiting innovation in setting new standards. In particular, the speed of change in the U.S. with respect to accounting standard setting and beyond seems to be considerably greater than in Canada and England, which may well be attributable at least in part to cultural factors. As Muis asserts (1977, p. 292):

> Unlike basic research in the physical sciences, the main ingredients for definition of new standards in accounting are not to be found in empirical observations of extant practices and the subsequent inference of accounting "laws": Proposals for such an exclusively inductive approach to accounting standard-setting have never been received with much enthusiasm given that standards derived from such a procedure could not possibly be geared to changing needs and evolving circumstances. Thus, accounting standards have always been influenced by value judgments, that is, by objectives which demand that standards be geared to what ought to be rather than based on what is.12

The cultural values of the U.S., Canada, and Britain are different. The U.S. is much quicker than both Canada and England to introduce technological changes, and the U.S. is less inclined to cling to traditions. Furthermore, the U.S. is less concerned with social welfare than Britain and Canada. Canada's culture may be described as an amalgam of the American and British.

Nevertheless, who is to say that the American standard-setting system ought to be applied to other countries? The different socio-political and economic environments in these

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countries can serve to explain differences in their standard-setting processes. This paper has attempted to analyze and evaluate the disparate standard-setting frameworks in the U.S., Canada, and England. As a caveat to our findings, Muis (1977, p. 294) maintains:

> Any cross-national comparison of different systems, which by definition are affected by numerous irrational variables such as power politics, historical evolution, lack of consensus on the foundations of the discipline and environmental differences --all powerful constraints on progress towards change for the better -- is extremely risky.

ENDNOTES

1 See R. H. Crandall, "Government Intervention -- the PIP Grant Accounting Controversy." Cost and Management, September-October 1983.

2 Chief financial executives in the U.S. today tend to be MBAs. The Chartered Accountant in Britain and Canada seems to have more prestige than the Certified Public Accountant in the U.S. in view of the tendency of the Chartered Accounting profession to prepare chief financial officers. In Canada, the Chartered Accountant's (CA) "license," if you will, is obtained by the candidate only after passing a rigorous case-oriented examination, that puts the CPA examination to shame, and having had sufficient experience working for a CA firm or the equivalent.

3 Yet Canada is much more of a welfare state than the U.S. As previously asserted, in view of its socialist traditions, Canada has developed an accounting standard dealing with government assistance and its treatment in the books of account. Britain also has a standard on this subject. The U.S. has no such comprehensive standard on this subject. The Canadian government owns a number of major corporations such as utilities and airlines. It should also be noted that the considerable influence of the government in Canada is also apparent in education. Almost all of the universities in Canada are publicly-owned. Even the Chartered Accountancy review programs offered in universities throughout Canada are invariably funded by the government. However, Canada mimics the U.S. by and large in accounting education, emphasizing manufacturing and retailing industries contrary to Canadian economic conditions and interests. Also, almost all of Canada's professors who hold Ph.D.s in accounting or business administration received them from U.S. universities.

4 A security-minded people, Canadian professionals, including physicians, attorneys, and accountants, tend to carry heavy liability insurance, yet Canadians are much less apt to sue than Americans. The rules for initiating "class action" suits in the U.S. are considerably more flexible than in Canada. Stockholders can initiate class suits and if they prevail compensation is granted to all stockholders in the class. Attorneys are also more likely to accept such cases in the U.S. on a contingent fee arrangement, and if the cases are upheld the attorneys will generally be handsomely compensated. The contingent fee arrangement is not widely used in Canada. See the Report of the Special Committee to Examine the Role of the Auditor, CA Magazine, April 1978.

5 This analysis is drawn in part from "Review of the Standard Setting Process," Accountancy, July 1983.

6. Since 1970, accounting standards in England have become mandatory. The first mandatory standard was issued in 1971. The Accounting Standards Committee is very similar in structure, if not also in modus operandi, to its Canadian namesake and the old American Accounting Principles Board. There is no equivalent to the U.S. Securities and Exchange Commission in England or in Canada.

7 The CCAB links the following six organizations: (1) Institute of Chartered Accountants in England and Wales, (2) Institute of Chartered Accountants of Scotland, (3) Institute of Chartered Accountants in Ireland, (4) The Association of Certified Accountants, (5) The Institute of Cost and Management Accountants, (6) The Chartered Institute of Public Finance and Accountancy.

8 This research effort is similar to that undertaken by the FASB and the Canadian Institute of Chartered Accountants.

9 Unlike the FASB, the ASC uses no explicit conceptual framework. As Watts observed (1984, pp. 113-4):

> To this day we have not been able to define satisfactorily the objectives of published financial statements in the U.K. By this I mean that nobody has yet defined them in a way which is of real practical assistance in devising the detailed rules for their regulation. There are plenty of 'motherhood' statements like "The basic objective of financial statements is to provide information useful for making economic decisions" developed in the US from the axiom that the primary objective of a corporation is to maximize the cash return to its owners, but this axiom is not immediately acceptable in societies such as the UK and EEC which are not so exclusively oriented to capitalism.

10 While the province of Quebec is governed by the Napoleonic (Justinian) Code, in which emphasis is placed on written codification of law, most of Canada and the U.S. rely on uncodified common law.

11 Corporate Reporting: Its Future Evolution, CICA, 1980, p. 94.

12 Historian Barbara Tuchman, in writing about history and policy-making, observes in a more general vein (1984, p. 289):

> Policy is formed by preconceptions and [illegible] implanted biases. When information is relayed to policy makers, they respond in terms of what is already inside their

heads and consequently make policy less to fit the facts than to fit the baggage that has accumulated since childhood.

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TABLE I

Key Differences Between American, Canadian, and British Standard Setting

	American	Canadian	British
Nature of the Standard Setting Body	FASB:	AcSC:	ASC:
	7 full-time, independent, well-paid members	An arm of CICA: unpaid volunteers	21 part-time, unpaid volunteers appointed by six consultative accountancy bodies thru which the ASC operates
	SEC oversees FASB's work	Nothing comparable to SEC. The Canada Business Corporations Act (1975) asserts that financial reports of companies incorporated under this Act must be prepared in accordance with the CICA Handbook, thus making the AcSC the standard-setting body. Additionally, various provincial securities commissions require companies that trade their securities in those provinces to adhere to CICA requirements.	Nothing comparable to the SEC. The British Companies Acts constitute a basic legal framework and incorporate EEC directives on financial reporting. Nonetheless the ASC has no official backing from an SEC-type agency.
Process of Standard Setting	Uses an external task for each project.	Uses external task forces to a limited extent.	Uses a working party, much like an external task force, but consisting of members of the consultative accountancy bodies among other interested parties.
	Emphasizes openness and due process: All meetings of FASB are open to the public.	Emphasizes secrecy: No meetings of AcSC are open to the public.	Emphasizes a set of procedures to be followed, which call for public hearings and consultation with users of financial reports and the press.
	Conducts or funds research to a significant extent (e.g., the economic consequences of standards).	Relies essentially on research of other standard setting bodies.	Research studies are carried out by the consultative accountancy bodies individually.

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TABLE I

Key Differences Between American, Canadian, and British Standard Setting

	American	Canadian	British
Process of Standard Setting	Uses a conceptual framework for guidance.	Does not use a conceptual framework.	Does not use a conceptual framework.
	Circulates discussion memorandums and exposure drafts to the public.	Circulates only exposure drafts to the public.	Circulates discussion papers, statements of intent, and exposure drafts.
	Holds public hearings on discussion memorandums.	Holds no public hearings.	Holds public hearings in accordance with the consultation plan set forth by the working party.
	Majority vote of FASB members to pass a standard.	Two-thirds vote of AcSC members to pass a standard (recommendation).	A three-quarters majority of the whole membership of the ASC is needed to release an exposure draft, a discussion paper, and the submission for approval to the council of consultative bodies. For an accounting standard to be approved, it must have the unanimous approval of the board of directors of the combined consultative committees.
	Letters of comment on discussion memorandums and exposure drafts available for public inspection after standard has been adopted.	Letters of comment only on exposure drafts available for public inspection after the standard (recommendation) has been adopted.	Not done.